

NATIONAL CREDIT UNION ADMINISTRATION

NCUA News

Board actions December 13, 2001

NCUA eliminates CAP

By a two to one vote, the NCUA Board adopted an interim final rule easing regulatory burden on community credit unions by eliminating the requirement that an existing community-chartered credit union document how it plans to serve the entire community. The CAP rule was scheduled to become effective Dec. 31, 2001. The repeal of CAP is effective when this interim final rule is published in the Federal Register.

The change also updates the definition of an investment area to accommodate new census data and revised Community Development Financial Institution Fund standards. The interim final rule has a 60-day comment period.

2002 NCUSIF operating level remains 1.3 percent

The NCUA Board voted to retain the current 1.3 percent NCUSIF operating level in 2002 based on the high level of

NCUSIF reserves and the well-capitalized position of credit unions.

The *Credit Union Membership Access Act* of 1998 mandates the NCUA Board set the normal operating level of the NCUSIF between 1.2 percent and 1.5 percent. The normal operating level is defined as the ratio of fund equity less unreserved contingent liabilities divided by the aggregate amount of all insured shares.

Any decision about returning a Fund dividend to credit unions will be addressed in March 2002 based on year-end financial data.

The NCUSIF reserve balance was \$53 million at October 31, 2001, well above the 7-year historical rate of \$28 - \$31 million. NCUA's Office of Examination and Insurance does complete monthly assessments of the adequacy of Fund reserves.

During 2001, the number of CAMEL code 4 & 5 credit unions has shown little

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change. As of October 31, the number of problem credit unions was 199 compared to 202 at year-end 2000. The percentage of insured shares in these credit unions remains at less than 1 percent of total insured shares. Credit union net worth remains a robust 11 percent.

Wheat and Bacino leave NCUA

Board Member *Yolanda T. Wheat* left NCUA Dec. 21, 2001, after serving nearly six years, with a brief stint as Chairwoman in 2001. Appointed in April 1996, during her tenure Wheat stressed the interests of consumers, focusing on access to financial services, privacy, and predatory lending practices. She supported incentives to help credit unions expand membership and she worked to enable credit unions to be competitive and thrive in the 21st century.

Board Member *Geoff Bacino*, appointed in January 2, 2001, left NCUA when Congress adjourned Dec. 20, 2001. A recess appointee, Bacino participated in and supported numerous significant issues during his brief tenure—the historic open Budget Briefing and Forum, programs to extend financial services to the underserved, adopting the risk-focused examination program, repeal of the community action plan and finalizing RegFlex



Alexandria, Va., Dec. 13, 2001, NCUA Board meeting — Flanked by Board Members Geoff Bacino and Yolanda Wheat, Chairman Dennis Dollar rests his arm on a box of 950 letters received in recent history opposing CRA-like provisions for credit unions.

News briefs

The President has signed the FY 2002 appropriation bill that provides the following provisions affecting NCUA:

- \$1.5 billion in Central Liquidity Facility borrowing authority;
- \$309,000 in Central Liquidity Facility operating expenses; and
- \$1 million for the Community Development Revolving Loan Fund Program — \$700,000 for loans and \$300,000 for technical assistance grants.

Details are available on the new NCUA Web-site section that covers pertinent federal legislation <http://www.ncua.gov/news/legislation/legislation.html>



Visit NCUA'S
extensive web site at
www.ncua.gov

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NCUA News

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

Dennis Dollar, Chairman

Information about NCUA and its services may be secured by writing to the Office of Public and Congressional Affairs, or by calling 703-518-6300. News of what is happening at NCUA is available by calling 800-755-1030 or 703-518-6339.

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GC opinion letters

The NCUA General Counsel's Office issues opinion letters interpreting agency regulations and policies in response to questions submitted by the credit union community.



Secure the letters mentioned by contacting

NCUA's Office of Public & Congressional Affairs, 1775 Duke Street, Alexandria, Va. 22314-3428 or by accessing NCUA's web site at www.ncua.gov/ref/opinionletters. Summaries of a few recent opinion letters follow.

#01-1023 — Member business loan participations - A credit union may purchase a participation interest in a commercial loan issued by another credit union provided it adopts a business loan policy and provided the loan is a type permitted under its participation loan policy. The credit union need not add a commercial lending expert to its staff to meet the member business

loan requirement to have expert assistance in its business loan program. The credit union can hire an expert consultant on a loan-by-loan basis.

#01-1050 — Regulation E, periodic disclosures — Regulation E requires that when a member receives an electronic funds transfer from a payroll account, the credit union must send a periodic statement to the member identifying the employer name and the fact that the transfer was from a payroll account. The periodic statement must also contain the amount of the transfer and the date the transfer was credited or debited to the account.

Regulation E requires a credit union to send a periodic statement in any monthly cycle in which an electronic fund transfer has occurred, or if no electronic fund transfer occurs, at least quarterly for any account to or from which an electronic fund transfer is allowed.

Liquidity guidance being developed

Over the past year, NCUA has issued several *Letters to Credit Unions (LCU) advising officials to be aware of balance sheet risk. Most recently, Letters 00-CU-14, Liquidity and Balance Sheet Risk Management* and *01-CU-08, Liability Management – Highly Rate Sensitive & Volatile Funding Sources* addressed liquidity risk management. In an effort to provide more guidance on liquidity to both examiners and credit unions, NCUA is developing new liquidity examination procedures.

These new procedures will reflect NCUA's risk-focused approach toward examinations. Soon, examiners will develop the scope of each liquidity review based on a preliminary analysis of quantitative and qualitative factors and then conduct the level of exam review deemed appropriate. Credit unions displaying a low degree of liquidity risk will likely have a minimal scope of review. Credit unions deemed high risk would oblige the examiner to use a more detailed scope of review.

The examiner may review such factors as policies, personnel, internal controls, and risk measurement in evaluating the credit union's ability to manage liquidity risk.

Through late autumn 2001, the draft liquidity procedures were being tested in all six regions on a pilot basis. Each region is conducting six pilot reviews. Examiners and credit union officials then offer comments and suggestions for improvement. Throughout the pilot phase the liquidity review procedures will be revised in an effort to make them clear and informative and to provide a reasonable basis for evaluating liquidity.

By early 2002, NCUA expects to incorporate finalized liquidity examination procedures in its automated, integrated review examination system and use them for regular supervisory examinations. NCUA will also post the final liquidity exam procedures on our Web site so credit unions can use them as a resource.

Board actions

December 13, 2001

Revolving Loan Program set for 2002

The NCUA Board approved a continuous cycle to apply for loans through the agency's Community Development Revolving Loan Program in 2002 and lowered the loan interest rate from the 2 percent level in 2001 to 1 percent in 2002, the lowest level permitted by regulation.

Flexible FCU employee benefits proposed

The NCUA Board issued proposed amendments to Section 701.19, renaming the rule "Benefits for Employees of Federal Credit Unions, to clarify that the scope of the rule is not limited to retirement benefits but also applies to other employee benefit plans.

The proposal provides FCUs with more flexibility to use safe, reasonable and efficient methods to fund employee benefit obligations. For example, the proposal clarifies NCUA's position that an FCU may purchase an otherwise impermissible investment to fund an employee benefit obligation provided there is a direct connection between the investment and the obligation it funds and the benefit is reasonable given the FCU's size and financial condition. The proposal has a 60-day comment period.

Travel reimbursements allowed for FCU officials

The NCUA Board issued a final rule amending Part 701.33, the compensation limit for FCU officials, by changing the definition of "compensation" to exclude the reimbursement or payment of business-related travel costs for an official accompanied by a guest.

The rule, permitting FCUs to adopt policies that provide for reimbursement of travel expenses for a guest accompa-

nying an FCU official on business, is effective 30 days after publication in the Federal Register.

Definitions and technical amendments finalized

The NCUA Board approved final changes that add, delete and correct definitions and technical amendments in various sections of the NCUA R&Rs. The rule changes are effective 30 days after appearing in the Federal Register. I

Interest rate risk study released for comment

The NCUA Board issued for comment a commissioned study of methods to value non-maturity shares in an effort to further develop examiner guidance for assessing interest-rate risk similar to guidance offered by fellow financial regulators. The comment period is 90 days.

Secure a copy of the study "The Valuation of Credit Union Non-Maturity Deposits" at <http://www.ncua.gov/news/draftboardactions/BAM-01-12-13-6.pdf>

2002 NCUA annual performance plan adopted

The Board adopted NCUA's Annual Performance Plan for 2002. The plan continues NCUA's commitment to its mission of safety and soundness through enhanced examination policies and procedures while streamlining internal business processes, increasing efficiencies, reducing the number of full-time staff and controlling budget growth.

NCUA to purchase video conferencing equipment

The NCUA Board approved the purchase of an agency-wide video conferencing system to support NCUA's strate-

gic goal of migrating to a single integrated, secure information technology communications system.

The system will allow NCUA to use technology to reduce travel and other costs while enhancing its operational effectiveness and efficiency. It will also facilitate increased communications within the agency and with trade associations, leagues, state supervisor authorities and credit unions. Conservative estimates are the system will pay for itself within two and a half years.

Chartering actions —

Charter conversions

The NCUA Board approved the request of \$99 million *First Heritage Federal Credit Union*, Painted Post, N.Y., to convert from a multiple common bond to a community charter to serve the people who live, work, worship, attend school, businesses and other legal entities in New York's Chemung and Steuben Counties and Tioga County in Penn.

The NCUA Board approved the request of \$21.6 million *Apex Federal Credit Union*, Stowe, Penn., to convert from multiple-group to a community charter to serve the people who live, work, worship, attend school, businesses and other legal entities in the Tri-County Community of 42 contiguous townships and boroughs in western Montgomery, southeastern Berks, and northern Chester counties in Penn.

The NCUA Board approved the request of \$326 million *Vandenberg FCU*, Lompoc, Calif., to convert from a multiple-group common bond to a community charter to serve residents of San Luis Obispo County and northern Santa Barbara County.

Votes are unanimous unless otherwise indicated.

2002 NCUA BOARD MEETING SCHEDULE

All meetings are subject to change

Date	Type of meeting	Time	Place
01/17/02	Open	10:00 a.m.	Alex, VA
01/17/02	Closed	11:30 a.m.	Alex, VA
02/07/02	Open	10:00 a.m.	Alex, VA
02/07/02	Closed	11:30 a.m.	Alex, VA
03/14/02	Open	10:00 a.m.	Alex, VA
03/14/02	Closed	11:30 a.m.	Alex, VA
04/18/02	Open	10:00 a.m.	Alex, VA
04/18/02	Closed	11:30 a.m.	Alex, VA
05/16/02	Open	10:00 a.m.	Alex, VA
05/16/02	Closed	11:30 a.m.	Alex, VA
06/20/02	Open	10:00 a.m.	Alex, VA
06/20/02	Closed	11:30 a.m.	Alex, VA
07/25/02	Open	10:00 a.m.	Alex, VA
07/25/02	Closed	11:30 a.m.	Alex, VA

NO AUGUST MEETING

09/19/02	Open	10:00 a.m.	Alex, VA
09/19/02	Closed	11:30 a.m.	Alex, VA
10/17/02	Open	10:00 a.m.	Alex, VA
10/17/02	Closed	11:30 a.m.	Alex, VA
11/21/02	Open	10:00 a.m.	Alex, VA
11/21/02	Closed	11:30 a.m.	Alex, VA
12/19/02	Open	10:00 a.m.	Alex, VA
12/19/02	Closed	11:30 a.m.	Alex, VA

All meetings are on Thursday unless otherwise indicated

CU expansions hit record numbers in underserved communities

15.6 million potential new members were added in 2001 topping 2000 by over 13 million

America's federally chartered credit unions expanded service into underserved and low-income communities across the United States adding a record 15.6 million potential new credit union members in 2001.

"Many credit unions are rising to the opportunity to serve their neighbors and, in doing so, to strengthen their institutions overall financial stability," NCUA Chairman Dennis Dollar said. "We will hold them to the standards of safety and soundness, but it is paramount that credit unions are able to serve within a regulatory environment where they are encouraged and not impeded in their effort to reach out and serve Americans from all walks of life."

NCUA data indicates that from January to December 19, 2001, credit unions adopted 265 communities with 15.6 million people. This compares to the entire year of 2000 when credit unions expanded into only 50 areas meeting the underserved criteria with a population of 2.3 million.

Today, approximately 350,000 more Americans have access to faith-based credit union services as a result of these institutions adopting underserved communities.

NCUA joins the nation in remembrance



8:46 a.m., December 11, 2001, Alexandria, Va. — The people at NCUA headquarters participate in the worldwide remembrance of the September 11 attacks on the World Trade Center and the Pentagon by singing the National Anthem and God Bless America.

"The terrorists would like nothing more than for Americans to be timid and filled with fear," NCUA Chairman Dennis Dollar said at the brief commemoration ceremony. "Together, we are exemplifying America's renewal, strength, and resolve."

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